1. GENERAL

The Company was incorporated as an exempted company in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange''). The trading of the shares in the Company on the Stock Exchange has been suspended since 12 February 2001.

The Company acts as an investment holding company.

The activities of the Company's principal subsidiaries at 30 September 2000 are set out in note 19.

Pursuant to a special resolution passed at a special general meeting held on 7 July 2000, the name of the Company was changed from S.Megga International Holdings Limited to Wireless InterNetworks Limited.

During the period, the Company changed its financial year end date from 30 June to 30 September. The financial statements presented therefore cover the fifteen-month period from 1 July 1999 to 30 September 2000. The corresponding amounts shown for the income statement, statement of recognised gains and losses, cash flows and related notes cover a twelve-month period from 1 July 1998 to 30 June 1999 and therefore may not be comparable with amounts shown for the current period. No further changes to reporting dates are anticipated.

Subsequent to the appointment of the receivers as described in note 3 below, Mr Minoru Kurabayashi, Mr Fang Wei Chang William and Mr Huang Peir Kuen, the former independent non-executive directors of the Company, retired as directors of the Company on 30 December 2000. On 4 June 2001, the Company announced the appointment of Mr Gerald Clive Dobby and Mr Wu Sai Wing as independent non-executive directors of the Company, and the removal of Mr Leung Ho Man, Paul (''Mr Paul Leung'', a former director and the former Chairman of the Company) as director of the Company. The remaining executive director, Mr Leung Howard, together with two newly appointed independent non-executive directors, Mr Gerald Clive Dobby and Mr Wu Sai Wing, are collectively referred to as the ''Current Directors''.

2. THE FINANCIAL RESTRUCTURING OF THE GROUP COMPLETED IN 2000

Against the background of the financial difficulties of the Group, the Group started in 1998 to work with all the then bank creditors of the Group (the ''Bank Creditors''), the holders (the ''Swiss Noteholders'') of the US$47,500,000 2.5% convertible loan notes due on 4 January 2002 (the ''Swiss Notes'') and the lenders (''Success Manor Lenders'') of Success Manor Investment Limited (''Success Manor'', a 50% owned associate of the Group incorporated in Hong Kong with limited liability) to restructure the indebtedness of the Group.

In July 2000, the Group has successfully implemented a financial restructuring (the ''Financial Restructuring''), details of which are set out in the Company's circular dated 14 June 2000. Details of the Financial Restructuring are summarised as follows:

2. THE FINANCIAL RESTRUCTURING OF THE GROUP COMPLETED IN 2000 (continued)

(a) The restructuring of the Company's share capital

The nominal value of each issued share in the Company was reduced by HK$0.08 to HK$0.02. The entire credit balance arising from the capital reduction of approximately HK$93,582,000 was applied to write-off part of the deficit of the Company to the same extent. The unissued share capital of the Company was sub-divided into shares of HK$0.02 each.

(b) The debt restructuring (the ''Debt Restructuring'') with the Bank Creditors, Swiss Noteholders and Success Manor Lenders.

The Debt Restructuring consisted of three parts:

I. the Modified Debt Restructuring Agreement

Pursuant to the Modified Debt Restructuring Agreement, all the outstanding debts owing by the Group to the Bank Creditors of HK$269,061,000 was refinanced and restructured on the following basis:

i. issuance of HK$34,706,000 secured 3 years non-interest bearing convertible loan notes (''3 Years Convertible Notes'') to the Bank Creditors;

ii. issuance of HK$17,353,000 secured 7 years non-interest bearing convertible loan notes (''7 Years Convertible Notes'') to the Bank Creditors;

iii. issuance of 2,070,023,405 shares of HK$0.02 each at a price of HK$0.10 per share in the Company (the ''Restructuring Shares'') to the Bank Creditors; and

iv. raised a mortgage loan of HK46,000,000 from Standard Chartered Bank (''SC Bank''), which consisted of a new advance of HK$36,000,000 and a refinancing of existing debt of HK$10,000,000.

II. the Swiss Noteholders Restructuring

Pursuant to the Swiss Noteholders Restructuring, all the outstanding Swiss Notes of HK$196,038,000 was refinanced and discharged on the following basis:

i. issuance of HK$24,709,000 secured 3 Years Convertible Notes to the Swiss Noteholders;

ii. issuance of HK$12,354,000 secured 7 Years Convertible Notes to the Swiss Noteholders; and

iii. issuance of 1,589,748,017 Restructuring Shares to the Swiss Noteholders.

2. THE FINANCIAL RESTRUCTURING OF THE GROUP COMPLETED IN 2000 (continued)

III. the placing agreement (the ‘‘Placing Agreement’’) with Success Manor Lenders

Pursuant to the Placing Agreement, the outstanding debt due to Success Manor Lenders of HK$16,866,000 was settled by a way of issuing 168,664,976 Restructuring Shares to Success Manor Lender.

Both of the 3 Years Convertible Notes and 7 Years Convertible Notes are secured by way of a guarantee and fixed and floating debenture (the ‘‘Debentures’’) granted by the Company and certain subsidiaries on certain assets of the Group.

3. APPOINTMENT OF RECEIVERS

After the completion of the Financial Restructuring in 2000, the Group continued to operate under extremely tight liquidity position and its business operation continued to deteriorate and was not generating sufficient cash flows.

On 13 February 2001, as a result of breaches of the Modified Debt Restructuring Agreement and the Debentures, SC Bank, the security trustee (the ‘‘Security Trustee’’) under the Debentures, appointed Messrs Paul Jeremy Brough and Nicholas Peter Etches of KPMG (the ‘‘Receivers’’) as the joint and several receivers and managers of S.Megga Telecommunications Limited (‘‘S.Megga Telecom’’), a wholly-owned subsidiary of the Company. On 12 March 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of the Company. On 9 August 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of certain subsidiaries of the Company. The Receivers were appointed to, inter alia, enforce and preserve the security granted pursuant to the Debentures and are responsible for the assets and businesses of the Group.

Subsequent to the appointment of the Receivers in February 2001, the Group suspended all its operations and businesses.

4. WINDING-UP PETITIONS AND SEALING ORDERS

(a) Winding-up petitions against the Company and S.Megga Telecom (the ‘‘Winding-Up Petitions’’)

i. Against S.Megga Telecom

On 12 February 2001, GPI International Limited (‘‘GPI’’, a supplier of S.Megga Telecom) filed a winding-up petition against S.Megga Telecom. The most recent hearing of the winding-up petition was fixed for 22 October 2001, but with the consent of S.Megga Telecom and GPI, the hearing was vacated. Application has been made to The High Court of Hong Kong (the ‘‘Court’’) for the sanction of the S.Megga Telecom’s Scheme (as defined under the section headed ‘‘The Debt Restructuring Proposal of S. Megga Telecom’’ in note 5) which will be heard on 1 March 2002. If the order of the Court is granted to sanction the S. Megga Telecom’s Scheme, the winding-up petition will lapse and the claim brought by GPI will be dealt with under the terms of the S.Megga Telecom’s Scheme.

4. WINDING-UP PETITIONS AND SEALING ORDERS (continued)

ii. Against the Company

On 16 August 2001, Mr Paul Leung presented a winding-up petition against the Company (the ''First Leung Winding-up Petition''), and which was made in respect of salary and other benefits alleged to be owed to him by the Company, was subsequently withdrawn by Mr Paul Leung by the filing of a consent order made by the Court on 29 November 2001.

On 25 September 2001, Mr Paul Leung presented another winding-up petition against the Company (the ''Second Leung Winding-up Petition''), and which was made in respect of similar matters to those contained in the First Leung Winding-up Petition. The Second Leung Winding-up Petition was dismissed by the Court on 21 January 2002 by agreement under the terms of a deed of settlement dated 10 January 2002, between Mr Paul Leung, the Group and the Receivers.

(b) Sealing orders

In February 2001, the joint venture partner of Dongguan S.Megga Telecommunications Limited (''Dongguan S.Megga''), an equity joint venture set up in The People's Republic of China (the ''PRC'') other than Hong Kong of which S.Megga Telecom is interested in approximately 70% of its registered capital, took legal action against the Group at The People's Court, Dongguan, for outstanding management fees, rents and processing fees. Since then, a total of 19 demands have been served on the Group at The People's Court, Dongguan, of which five were presented by the Hong Kong based creditors of Dongguan S.Megga and four had already obtained sealing orders on certain assets of the Group located in the Group's Dongguan premises. Three auctions had been held on 14 December 2001, 4 January 2002 and 25 January 2002 to dispose of certain assets in the Dongguan factory. No bid had been received during the auctions. A fourth auction is yet to be fixed by The People's Court, Donggnan.

Further details are summarised in note 6(c).

5. RESTRUCTURING PROPOSAL

Since the appointment of the Receivers, the Receivers and the Company have received several proposals from a number of potential investors for the Group's financial restructuring.

The Restructuring Agreements and the Restructuring Proposal

On 20 September 2001, the Company announced that the Subscription Agreement, the Compromise Agreement and the Injection Agreement (together referred to as the ''Restructuring Agreements''), were entered into between the Company, the Receivers, CCT Telecom Holdings Limited (''CCT'', a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange) and Dongguan Defa Investment Limited (''Defa'', an investment holding company incorporated in the British Virgin Islands) on 10 August 2001.

5. RESTRUCTURING PROPOSAL (continued)

The following transactions of the Restructuring Agreements are proposed (the ''Restructuring Proposal''):

(a) The restructuring of the Company's share capital

i. The capital reduction (the ''Capital Reduction'')

– the nominal value of each issued share in the Company will be reduced by HK$0.019 to HK$0.001; and

– the unissued share capital of the Company will be sub-divided into twenty shares of HK$0.001 each.

The entire credit balance arising from the Capital Reduction shall be applied to write-off part of the deficit of the Company to the same extent.

ii. The share consolidation (the ''Share Consolidation'')

Following the Capital Reduction become effective, every ten reduced shares of HK$0.001 each in the Company will be consolidated into one new share of HK$0.01 each in the Company.

iii. Increase of authorised share capital

Immediately upon the Share Consolidation become effective, the authorised share capital of the Company will be increased to HK$150,000,000.

(b) The transfer of assets and shares in S.Megga Telecom

i. The transfer of assets of S.Megga Telecom

Pursuant to an assets transfer agreement entered into between the Company and S.Megga Telecom on 21 September 2001, certain assets of S.Megga Telecom will be hived-down to another subsidiary of the Company for a consideration of HK$2,000,000 in cash and 100,000,000 new shares of HK$0.01 each in the Company (together referred to as the ''Assets Transfer Consideration'').

ii. The transfer of shares in S.Megga Telecom

Immediately after the transfer of assets described above, the Company will then transfer all the Company's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the holders of the 3 Years Convertible Notes and 7 Years Convertible Notes (together referred to as the ''3 & 7 Years Noteholders'').

5. RESTRUCTURING PROPOSAL (continued)

(c) The injection of asset from CCT (the ''Asset Injection'')

CCT has agreed to sell and the Company has agreed to buy the entire issued share capital of Electronic Sales Limited (''ESL'') at a consideration of HK$70,000,000 by:

i. issuance of 2,500,000,000 new shares in the Company at HK$0.01 each at a total consideration of HK$25,000,000; and

ii. issuance of HK$45,000,000 non-interest bearing convertible notes due on 2004 (the ''2004 Convertible Notes''). The 2004 Convertible Notes is redeemable on the third anniversary of the date of issue (the ''2004 Convertible Maturity Date''). The 2004 Convertible Notes carry rights at any time from the issue of the 2004 Convertible Notes to five business days prior to the 2004 Convertible Maturity Date to convert the whole or part of the principal of the 2004 Convertible Notes into new shares of HK$0.01 each in the Company at a price of HK$0.01 per share.

ESL is an indirect wholly-owned subsidiary of CCT. ESL was acquired by CCT in May 1997 and is a manufacturer of switching mode and linear mode power supplies and operates at a manufacturing plant in Dongguan, the PRC. The main products of ESL include transformers, AC/DC adaptors, and custom built-in power supply, which are used in the manufacturing of corded and cordless telephones.

(d) The subscription of new shares

Pursuant to the Restructuring Agreements, CCT and Defa has each agreed to subscribe for 2,000,000,000 new shares in the Company at a par value of HK$0.01 each for an aggregate amount of HK$40,000,000 in cash (the ''Subscription''). The issue price of the new shares is the same as the closing price of HK$0.01 of the existing shares of the Company before the suspension of trading of the shares in the Company on the Stock Exchange on 12 February 2001.

(e) The Debt Restructuring Proposal of the Company

I. The 3 & 7 Years Noteholders

Up to the date of this report, the Company was indebted to the 3 & 7 Years Noteholders for approximately HK$63,700,000. The terms of the proposal in respect of the 3 Years Convertible Notes and 7 Years Convertible Notes will be as follows:

i. An amount of HK$38,200,000 will be paid by the Company by way of cash of HK$20,000,000 from the proceeds of the Subscription and the issue of 1,820,000,000 new shares of HK$0.01 each in the Company to the 3 & 7 Years Noteholders in each case pro-rata to the amount of the debt owed to each 3 & 7 Years Noteholders;

5. RESTRUCTURING PROPOSAL (continued)

ii. The Company will transfer all the Group's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the 3 & 7 Years Noteholders; and

iii. The resulting shortfall of approximately HK$25,500,000 from the total indebtedness due to the 3 & 7 Years Noteholders (the ''3 & 7 Years Noteholders' Shortfall'') will form part of the Company's unsecured indebtedness and will be compromised under a scheme of arrangement (the ''Company's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between the Company and its unsecured creditors as explained in note 5(a)II below.

For the purpose of the Company's Scheme, the Company's assets charged under the Debentures for the benefit of the 3 & 7 Years Noteholders, as secured creditors of the Company, will be treated as having a value of approximately HK$40,500,000 by incorporating the value of the payment of approximately HK$38,200,000 to be made by the Company to the 3 & 7 Years Noteholders. Accordingly, subject to the completion of the Restructuring Proposal, the amount of the 3 & 7 Years Noteholders' Shortfall of HK$25,500,000 will have been reduced to approximately HK$23,200,000 (the ''Adjusted 3 & 7 Years Noteholders' Shortfall'').

II. The unsecured indebtedness of the Company

Up to the date of this report, the indebtedness of the Company due to its unsecured creditors, including the Adjusted 3 & 7 Years Noteholders' Shortfall of approximately HK$23,200,000, was approximately HK$36,200,000 and is proposed to be compromised under the Company's Scheme. Cash of HK$3,000,000 from the proceeds of the Subscription will be made available to the unsecured creditors of the Company.

At a meeting of the Company's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the Company's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the Company's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the Company's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The Company's Scheme will only become effective and binding on all the unsecured creditors of the Company upon an office copy of the order of the Court sanctioning the Company's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

Further details of the Restructuring Agreements and the Restructuring Proposal were announced by the Company on 20 September 2001, 11 October 2001, 14 November 2001, 27 December 2001 and 31 January 2002.

5. RESTRUCTURING PROPOSAL (continued)

The Debt Restructuring Proposal of S.Megga Telecom

Up to the date of this report, the indebtedness of S.Megga Telecom due to its unsecured creditors, excluding the inter-company debts and guarantee liabilities of HK$817,200,000 and HK$52,600,000, respectively, was approximately HK$93,900,000 and is proposed to be settled under a scheme of arrangement (the ''S.Megga Telecom's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between S.Megga Telecom and its unsecured creditors.

At a meeting of the S.Megga Telecom's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the S.Megga Telecom's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the S.Megga Telecom's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the S.Megga Telecom's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The S.Megga Telecom's Scheme will only become effective and binding on all the unsecured creditors of S.Megga Telecom upon an office copy of the order of the Court sanctioning the S.Megga Telecom's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

The Assets Transfer Consideration shall be distributed amongst these unsecured creditors of S.Megga Telecom on a pro-rata basis in accordance with the terms of the S.Megga Telecom's Scheme.

6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) In preparing the financial statements, the Current Directors have given careful consideration to the future operations and financing of the Group in the light of the deficiency of shareholders' funds of approximately HK$11,872,000 and the net current liabilities of approximately HK$140,513,000 as at 30 September 2000. Providing that the Restructuring Proposal described in note 5 can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors consider that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

(b) Following the appointment of the Receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the completion of the Restructuring Proposal. Although the Current Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of certain items in the financial statements as follows:

i. The Current Directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Group:

6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

- Turnover of HK$539,577,000;

- Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK$453,112,000, HK$26,758,000 and HK$73,275,000, respectively, included in cost of sales;

- Other revenue of HK$55,191,000;

- Selling and administrative expenses of HK$91,347,000;

- Finance costs of HK$50,677,000;

- Operating lease rental payments in respect of land and buildings and plant and machinery of HK$1,954,000 and HK$20,000 respectively;

- Total directors' remuneration and other staff costs of HK$57,122,000 (excluding amount capitalised in deferred development expenditure) as analysed in notes 11 and 12;

- Gross rental income of HK$5,130,000;

- Tax recoverable with nil balance; and

- Trade and other payables of HK$115,626,000.

As a result of the above, the Current Directors were also unable to satisfy themselves as to:

- the appropriateness of the provision for bad and doubtful debts of HK$3,206,000; and

- the reliability of the segmental information in note 9.

ii. The Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the fifteen-month period ended 30 September 2000. Accordingly, the Current Directors were unable to satisfy themselves regarding the appropriateness of the write-off deferred development expenditure of HK$ 29,052,000 in the consolidated income statement of the Group for the fifteen-month period ended 30 September 2000.

iii. Included in bank balances and cash of the Group was an amount of HK$1,318,000 which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group was an amount of HK$167,000 in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2000.

6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

iv. Against this background described above, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the fifteen-month period ended 30 September 2000 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2000. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, and related party transactions and balances.

(c) As explained in note 4(b), the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against of the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK$58,861,000, HK$ 34,676,000, HK$21,782,000, HK$2,676,000 and HK$790,000, respectively.

Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2000 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and depreciation and amortisation charge of property, plant and equipment of HK$15,120,000 (excluding amount capitalised in deferred development expenditure) during the fifteen-month period thereon were fairly stated in the financial statements.

(d) Included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the ''Subsidiaries'') for the fifteen-month period ended 30 September 2000 as follows:

– Other revenue of HK$45,000;

– Selling and administrative expenses of HK$5,402,000;

– Provision for bad and doubtful debts HK$94,000.

– Finance costs of HK$432,000;

– Other payables of HK$665,000;

6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

- Bank balances and cash of HK$801,000; and

- Bank and other borrowings of HK$2,177,000.

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the fifteen-month period ended 30 September 2000; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

7. ADOPTIONS OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE AND PRIOR PERIOD ADJUSTMENT

In the current period, the Company has adopted, for the first time, the following Statements of Standard Accounting Practice (‘‘SSAP(s)’’) issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 24	Accounting for investments in securities

SSAPs 1 and 2 are concerned with the presentation and disclosure of financial information. The presentation in the current period’s financial statements has been modified in order to conform with the requirements of those standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented; and

- items of income and expense that were separately identified on the face of the income statement in the prior year as ‘‘exceptional items’’ have been reclassified within an appropriate income or expenses classification.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of the new standards. None of the amendments outlined above has affected the results for the current or prior periods.

The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates, except in relation to associates with net deficits. In previous years, the Group accounted for its share of all of the losses of such associates provided that the investment was regarded as long-term. Under SSAP 10 (Revised), recognition of such losses is discontinued when the losses equal to the carrying